



**JOHN CHIANG**  
*California State Controller*

October 1, 2008

The Honorable Denise Moreno Ducheny, Chair  
Joint Legislative Budget Committee  
1020 N Street, Room 553  
Sacramento, CA 95814

Re: Annual Report to the Legislature on Unclaimed Property Audits

Dear Senator Ducheny and Joint Legislative Budget Committee Members:

The 2006-07 Budget Act approved 15 new auditor positions for the State Controller's Office (SCO) to expand its efforts to audit companies holding unclaimed property belonging to California citizens. Supplemental reporting language requires the SCO to submit an annual report to the Joint Legislative Budget Committee containing information about SCO unclaimed property audits conducted in the prior fiscal year. The annual report must contain the following information:

- Number of unclaimed property audits conducted, broken out by industry type;
- Summary of unclaimed property audit findings, broken out by industry type;
- Amount of unclaimed property audit collections;
- Number of individuals reunited with their property; and
- Amount the department disbursed to property owners.

The SCO is responsible for determining compliance with the State's Unclaimed Property Law and Regulations. The law and regulations provide that unclaimed property is escheatable to the State, and the statutes give custody and the benefits of the use of the property to the State until the rightful owner claims the property. The SCO performs in-state audits. Third-party contractors perform out-of-state audits for the SCO. Their audits are not a part of this report.

The SCO respectfully submits the following information for Fiscal Year (FY) 2007-08:

- 1. Number of unclaimed property audits conducted, broken out by industry type:** In FY 2007-08, the SCO initiated 31 audits, completed 38 audits, and had 28 audits in progress at year-end in the following industries:

<u>Industry</u>	<u>Audits Carried Over from PY</u>	<u>Audits Initiated</u>	<u>Audits Completed</u>	<u>Audits in Progress</u>
Agriculture/grower	1	—	1	—
Auto dealership	14	5	13	6
Communications	1	—	1	—
Construction	3	—	2	1
Consumer services	4	3	4	3
Financial services	1	3	1	3
Food and beverage distribution	2	3	4	1
Hospital	2	—	2	—
Industrial	—	3	2	1
Insurance	1	—	1	—
Manufacturing	2	9	2	9
Real estate development	1	—	1	—
Restaurants	—	1	1	—
Retailer	1	—	—	1
Technology	—	1	1	—
Transportation	1	—	1	—
University	1	1	1	1
Utility	—	2	—	2
Totals	<u>35</u>	<u>31</u>	<u>38</u>	<u>28</u>

- 2. Summary of unclaimed property audit findings, broken out by industry type:** The SCO completed 38 audits during FY 2007-08 and identified \$3,207,740 in escheatable property. Following, is a breakdown of the audit findings by the respective industry type:

<u>Industry</u>	<u>FY 2007-08 Audit Findings</u>
Agriculture/grower	\$ 11,819
Auto dealership	799,338
Communications	231,463
Construction	166,002
Consumer services	3,950
Food and beverage distribution	401,185
Hospital	1,194,186
Industrial	146,910
Insurance	154,904
Manufacturing	28,728
Real estate development	4,474
University	64,781
Total findings	<u>\$ 3,207,740</u>

3. **Amount of unclaimed property audit collections:** During FY 2007-08, the SCO collected \$291,757 in unclaimed property and interest for the audits completed in FY 2006-07 and FY 2007-08. This total includes \$1,959 in unclaimed property that was submitted by holders during the fiscal year for audits in progress.

	Amount of Unclaimed Property Collected	Interest Collected <sup>1</sup>	Audits Completed
Audits completed in FY 2006-07	\$ —	\$ 82,264	\$ 82,264
Audits completed in FY 2007-08	185,635	21,899	207,534
Audits in progress in FY 2007-08	1,959	—	1,959
Total	<u>\$ 187,594</u>	<u>\$ 104,163</u>	<u>\$ 291,757</u>

<sup>1</sup> Pursuant to CCP section 1577 of the California Unclaimed Property Law, interest is charged to the holder at the rate of 12% per annum on the unclaimed property from the date the property should have been reported or paid or delivered.

Legal issues and recently passed legislation have delayed the collection process for audits. On June 1, 2007, the United States District Court issued a preliminary injunction prohibiting the State Controller's Office from accepting, taking title to, or possessing any property including, but not limited to, cash, securities, and contents of safe-deposit boxes. The State Controller's Office temporarily ceased to collect any property, including unclaimed property audit collections, after May 31, 2007.

The preliminary injunction was lifted on October 18, 2007. However, under new legislation (Senate Bill 86), the unclaimed property reporting requirements were changed to a two-report process. First, all holders are required to submit a Notice Report of unclaimed property owners before the property is remitted or transferred to the SCO. The SCO, in turn, uses this information to send notices to owners with a property value of \$50 or more within 165 days after the due date of the Notice Report. The SCO notice alerts the owner that property in possession of the holder will be transferred to the State unless the owner contacts the holder regarding the property. Holders are then required to file a Remit Report no sooner than seven months and no later than seven and one-half months after the due date of the Notice Report. At that time, the holder remits all remaining unclaimed property to the SCO.

4. **Number of individuals (owners) reunited with their property:** As a result of the SCO's audits, a total of 422 property owners were reunited with their property in FY 2007-08. These owners were reunited with their property in three different ways. First, the SCO allowed the holders an opportunity to voluntarily return unclaimed property to the owners during the course of the audit. Any unclaimed property not returned by the holders upon completion of the audit became escheatable property. The holders reunited 250 owners with their property during the SCO audits. Second, as required by Senate Bill 86, the SCO sent out notices to owners after the unclaimed property owners were reported to the SCO by the holders. Owners were directed to contact the holder to claim their property or it would be transferred to the SCO. A total of 120 owners were reunited with their property after these notices were sent out and before the holder remitted the property to the SCO. Third, after the

property is transferred to the SCO, the owners may file a claim with the SCO to recover their property. A total of 52 owners were reunited with their property through the SCO's claim process after their property was transferred to the SCO. As of June 30, 2008, another 34 owner claims were pending review and payment.

	Owners with Property Returned by Holder During the SCO Audits	Owners with Property Returned by Holder between Notice Report and Remit Report	Owners with Property Returned by SCO	Fiscal Year Totals
During FY 2007-08				
Audits completed in FY 2006-07	—	—	50	50
Audits completed in FY 2007-08	<u>250</u>	<u>120</u>	<u>2</u>	<u>372</u>
Total	<u>250</u>	<u>120</u>	<u>52</u>	<u>422</u>

5. **Amount the department has disbursed to property owners:** As a result of unclaimed property identified through the SCO's audits, a total of \$411,525 was disbursed to property owners in FY 2007-08. As stated in item 4 above, the owners were reunited with their property in three different ways. First, holders disbursed \$312,587 to property owners before the audits were completed. Second, the holders disbursed \$71,403 to owners after filing Notice Reports with the SCO but prior to transferring the properties to the SCO. Third, after the properties were transferred to the SCO, \$27,535 was disbursed to owners through the SCO claim process. On June 30, 2008, claims for properties valued at \$63,639 were pending review and payment.

	Amount Disbursed by Holder During the SCO Audits	Amount Disbursed by Holder between Notice Report and Remit Report	Amount Disbursed by SCO	Fiscal Year Totals
During FY 2007-08				
Audits completed in FY 2006-07	\$ —	\$ —	\$ 27,325	\$ 27,325
Audits completed in FY 2007-08	<u>312,587</u>	<u>71,403</u>	<u>210</u>	<u>384,200</u>
Total	<u>\$ 312,587</u>	<u>\$ 71,403</u>	<u>\$ 27,535</u>	<u>\$ 411,525</u>

If you have any questions regarding this information, please call Jeffrey V. Brownfield, Chief, Division of Audits, at (916) 324-1696.

Sincerely,

*Original signed by*

MICHAEL CARTER  
Chief Operating Officer

The Honorable Denise Moreno Ducheny  
October 1, 2008  
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Re: S09-UCP-500

cc: Joint Legislative Budget Committee Members  
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Veronica Chung Ng, Program Budget Manager  
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